

# DRINKING WATER SUPPLY AND SANITATION IN SMALL COMMUNITIES

(PR-0118)

## EXECUTIVE SUMMARY

<b>Borrower:</b>	Republic of Paraguay	
<b>Executing agency:</b>	Servicio Nacional de Saneamiento Ambiental [National Environmental Sanitation Service] (SENASA)	
<b>Amount and source:</b>	IDB (OC):	US\$12.0 million
	Local:	US\$ 5.1 million
	Total:	US\$17.1 million
<b>Financial terms and conditions:</b>	Amortization period:	25 years
	Grace period:	5 years
	Disbursement period:	5 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	Currency pooling
<b>Objectives:</b>	<p>The general objective of the program is to contribute to the improvement of health conditions in small communities in Paraguay through the provision of drinking water and basic sanitation services.</p> <p>The specific objectives of the program are: (i) to extend the coverage of drinking water and basic sanitation systems to small communities of up to 3,000 inhabitants that currently lack such services and to assure their sustainability; (ii) to promote the extension of services to indigenous communities through the execution of a pilot component to put in place 10 systems in these communities; and (iii) to strengthen the institutional framework for the expansion and administration of services in order to accelerate present and future increases in coverage.</p>	
<b>Description:</b>	<p>These objectives will be pursued through three program components. The first two have to do with the expansion of the drinking water and basic sanitation systems and the third, with strengthening of the institutional structure for the expansion of services under the existing legal framework. The descriptions and estimated direct costs of these three components are presented below. In addition to these direct</p>	

costs, US\$3.1 million will be needed for administration and management, US\$300,000 for contingencies, and US\$1.7 million for financing costs, bringing the total cost of the program to US\$17.1 million.

- 1. Drinking water systems for small communities (US\$11 million):** The aim of this component is to bring drinking water service to small rural communities that currently lack such service and to implement a sustainable system of administration and maintenance in each community. The average population of these communities is around 750, and the cost per inhabitant for the systems would be around US\$160, which includes both a drinking water system with house connections and individual solutions for the disposal of wastewater. This component also includes community development activities needed to promote rational and efficient water use and creation and training of the entities responsible for operating the systems. This component has been designed to target 100 communities, with a total estimated beneficiary population of 75,000.
- 2. Drinking water systems for indigenous communities (US\$400,000):** This component will serve as a pilot experience. Its objective is to construct drinking water systems for 10 indigenous communities in the Chaco region and implement a sustainable management and maintenance system in each community. The population that will benefit from this component is estimated at 2,000. Like the preceding component, this component will include the community development activities needed to promote rational and efficient water use and creation and training of the entities responsible for operating the systems.
- 3. Institutional strengthening for the expansion of services (US\$600,000):** This component will seek to strengthen SENASA's capacity in its role as promoter of the expansion of drinking water and sanitation services in accordance with the current legal framework. In particular, support will be provided to SENASA for: (i) promotion of associations of sanitation boards and the design of schemes to facilitate proper operation and maintenance of the services by their members; and (ii) design and implementation of the necessary procedures and controls to ensure systematic collection of payments on loans granted to sanitation boards.

**The Bank's country and sector strategy:**

The Bank's strategy in Paraguay is geared toward supporting efforts to achieve accelerated and sustainable economic growth in the long term in order to meet the social needs of the population and help reduce poverty and inequality. The principal areas of action are: (i) *development of the production structure and protection of the environment* in order to promote sustainable development and effective participation by Paraguay in the regional integration process; (ii) *reform of the State* with the objectives of strengthening its role as regulator and promoter of economic and social development, improving its efficiency in the delivery of basic social services, and enhancing governance; (iii) *rural development*, promoting integrated development in order to bring about enduring improvements in living standards among the rural population, reduce rural poverty, and increase the potential for growth of the economy; and (iv) *modernization and reform of the social sectors* in order to contribute to the reduction of poverty and improve the quality of life for the population.

The program proposed here will clearly contribute to the implementation of this strategy, since it is aimed at improving quality of life in the beneficiary communities. It fits primarily within the area of reform of the social sectors, in particular the drinking water and sanitation sector, inasmuch as it seeks to increase the coverage of services and improve their quality.

**Environmental and social review:**

As part of the program preparation process, an analysis of environmental and social impacts was carried out. The draft version of this document was made available to the public for comment on 9 November 2000 and was sent to the Public Information Center (PIC) on 1 December 2000. The preparation of an environmental impact assessment (EIA) was not required.

The environmental impact of the program will be generally positive, as it will enhance health conditions in the beneficiary communities. The negative impacts will be minimal and will occur mainly during the system construction phase. Inclusion of the necessary mitigation measures in bidding documents will be a prerequisite for opening the bidding on all construction works.

With regard to social impact, consulting services were retained to identify communities that might participate in the program and to lend the necessary support for the development of the associations and sanitation boards that would be responsible for the systems. This consultancy also included a gender analysis in the identified communities, which sought to ascertain the roles of men and women in the provision of the service with a view to promoting a framework

for equitable participation in all activities of the program. Another consultancy identified indigenous communities that might participate in the program and provided support to make that participation possible, both in regard to technical aspects and social concerns.

The Operating Regulations for the program include annexes on environmental management of the program and community development, gender, and indigenous communities, which are the result of the aforementioned consultancies.

**Benefits:**

The program is expected to have a positive impact, since increased access to drinking water and sanitary sewerage services will improve levels of health and quality of life for the beneficiary population. In particular, the program will benefit the country's poorest populations, which are distributed across a wide geographic area. Its effects will also extend to indigenous communities in the case of the pilot component. The total beneficiary population for the program is estimated at 77,000. The program will promote the active involvement of women in program activities and a gradual increase in their participation on the sanitation boards.

**Risks:**

There are three main risks to the program's success:

- (i) SENASA's capacity to channel the program funds to the sanitation boards together with the funding already available from the International Bank for Reconstruction and Development (IBRD) without one operation interfering with the other. **Mitigation:** Harmonization of the program regulations with those of the IBRD operation already in progress, and support from a private firm in the execution of the program.
- (ii) Sustainability of the systems after they are constructed and turned over to the sanitation boards. **Mitigation:** The rates to be applied by the sanitation boards will be sufficient to cover all the costs of the services, as well as service of the debt to SENASA; the construction works will be carried out with participation from the community in order to foster a sense of ownership in the systems; and private-sector participation in management of the systems will be facilitated.
- (iii) Sustainability of the current system of service promotion used by SENASA. **Mitigation:** Promotion of the formation of associations of sanitation boards to relieve SENASA of its technical support functions after transfer of the systems, and strengthening of SENASA's capacity for the recovery of loans granted to sanitation boards.

**Special contractual clauses:****Prior to the first disbursement:**

- (i) Evidence that the Operating Regulations for execution of the program have entered into force in accordance with the terms agreed with the Bank (see paragraph 3.3).
- (ii) Evidence that the contract with the program management firm (PMF) that will assist SENASA in executing the program has been signed (see paragraph 3.10).
- (iii) Evidence that the borrower has opened a special bank account for the exclusive purpose of disbursing the loan and that SENASA has opened two bank accounts for the administration of the loan and counterpart funds (see paragraph 3.13).

**Other special conditions during execution:**

- (i) Signature of the agreements between SENASA and the sanitation boards, as a condition for calling for bids for the construction works (see paragraph 3.11).
- (ii) Application of the environmental mitigation plan by the PMF for each specific project and inclusion of the corresponding mitigation measures in the bidding documents, as a condition for calling for bids for the works (see paragraph 3.23).
- (iii) Verification that the rates to be charged by the sanitation boards are sufficient to cover all costs of the services and also service the debt to SENASA, as a condition for project eligibility (see paragraph 5.16).

**Poverty-targeting and social sector classification:**

This operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation qualifies as a poverty-targeted investment (PTI), since the percentage of low-income beneficiaries is 71%; however, the borrowing country will not be using the 10 percentage points in additional financing because it is not necessary, given the structure of counterpart funding implicit in the current financing scheme for the systems with which this operation is concerned.

**Exceptions to Bank policy:**

None.

**Procurement:** All bidding and contracting for goods, services, and works will be carried out by SENASA in accordance with the Bank's rules and procedures. International competitive bidding will be required for procurements valued at US\$250,000 or higher in the case of goods, US\$2,000,000 or higher in the case of construction works, and US\$200,000 or higher in the case of consulting services. Bidding for items valued at under these amounts will be carried out in accordance with national legislation, which is compatible with the Bank's procedures. The projects for construction of the various systems will be grouped in three packages of 30, 40, and 30 systems for which calls for bids will be issued in the second, third, and fourth years, respectively, in accordance with the procurement schedule presented in Annex II. Bidders will have the option of bidding on all or only some of the works included in each package. Contracting for consultancies will be carried out in conformity with the Bank's rules and procedures.